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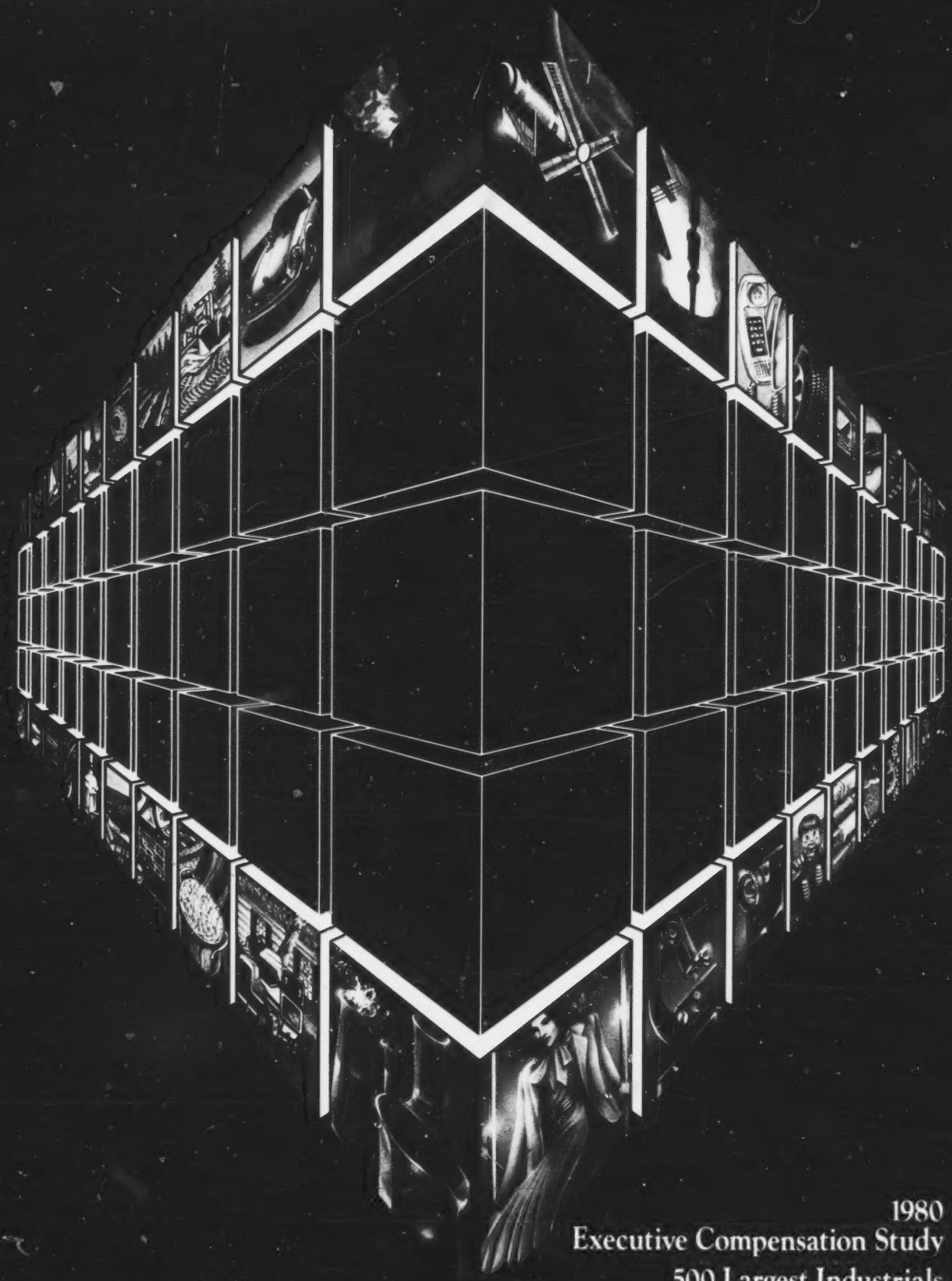

1980
Executive Compensation Study
500 Largest Industrials
The Top and Bottom

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TPF&C Executive Compensation Study

For more than ten years, TPF&C has monitored the pay policies and practices of the Top 100* U.S. industrial companies. This year's study continues the practice of reporting on the nation's largest industrials and, in an effort to gain new insight, also surveys a group of smaller industrials. We chose the last 100* of the Top 500 U.S. industrials as the sample of smaller organizations.

The first part of the report contains financial characteristics of the survey companies, demographics of the chief executive officers and compensation statistics for the highest paid executives in the survey companies. The second part explores the extent to which the incentive pay practices of the Top 100 are mirrored in the practices of the "Bottom" 100 companies. As in earlier studies, the report also contains a company-by-company listing of the short- and long-term incentive compensation techniques included in the current plans of the Top 100 organizations.

*almost identical to the *Fortune* listings (May 1980); exceptions are noted on pages 13 and 21.

Profile of the Survey Group

The Companies

Exxon's sales of $79 billion exceed those of second-ranked General Motors by almost $13 billion. That gap is substantial, but consider that

- only 13 companies, including Exxon and General Motors, have sales of more than $13 billion
- Exxon's sales are 24 times those of FMC, which occupies the other polar position in our Top 100
- Exxon's sales exceed the combined sales of all companies in the Bottom 100 by $28 billion.

These figures might give the impression that the companies in the Bottom 100 are minor industrials. On the contrary, during 1979 their sales averaged almost half a billion dollars.

Median figures indicate that 1979 was a good year for sales. The Top 100 registered gains of 18.2% and the Bottom 100, 16.4%, as shown in *Exhibit 1*. But the Bottom 100 lagged the Top 100 in profit growth — 17.5% versus 25.1%. Shareholder equity increased 12.1% in the Top 100 and 12.7% in the Bottom 100.

The Top 100 profit statistics are heavily influenced by the presence of 21 petroleum companies. If these organizations are removed from the list, the financial results are more in line with those of the Bottom 100. The median increase in profits drops 29%, sales decrease 16%, and shareholder equity, 7.9%. The removal of the two oil companies from the Bottom 100 causes little change in that group's statistics.

The CEOs

Both the Top 100 and the Bottom 100 have some senior citizens at the helm, several of whom have been there more than 30 years (*Exhibit 2*). Judging from median values, it takes somewhat longer — 23 years versus 15 years — to become the CEO in a Top 100 company than a Bottom 100 company. And when the executive assumes command, he is a few years older. Apparently, the larger organizations have more rungs on the ladder.

The "profile" CEO of the Top 100 company was hired at age 31, became CEO at age 54 and has been in the job for six years. The profile CEO of the Bottom 100 company also has been in the top spot for six years, but he was hired at age 36 and became CEO at age 51.

Exhibit 1

Financial Statistics

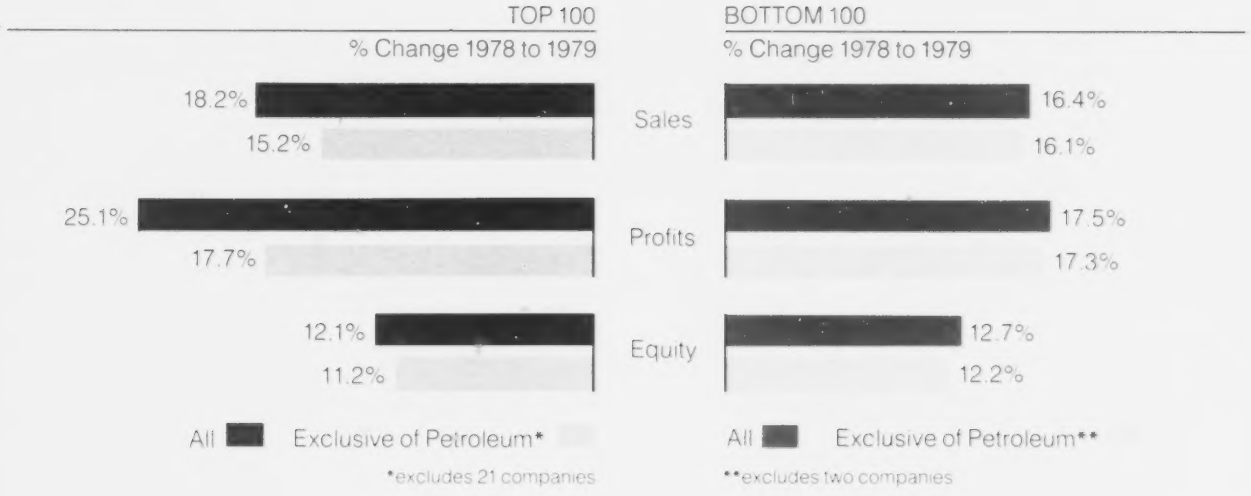


Exhibit 2

Personal Statistics

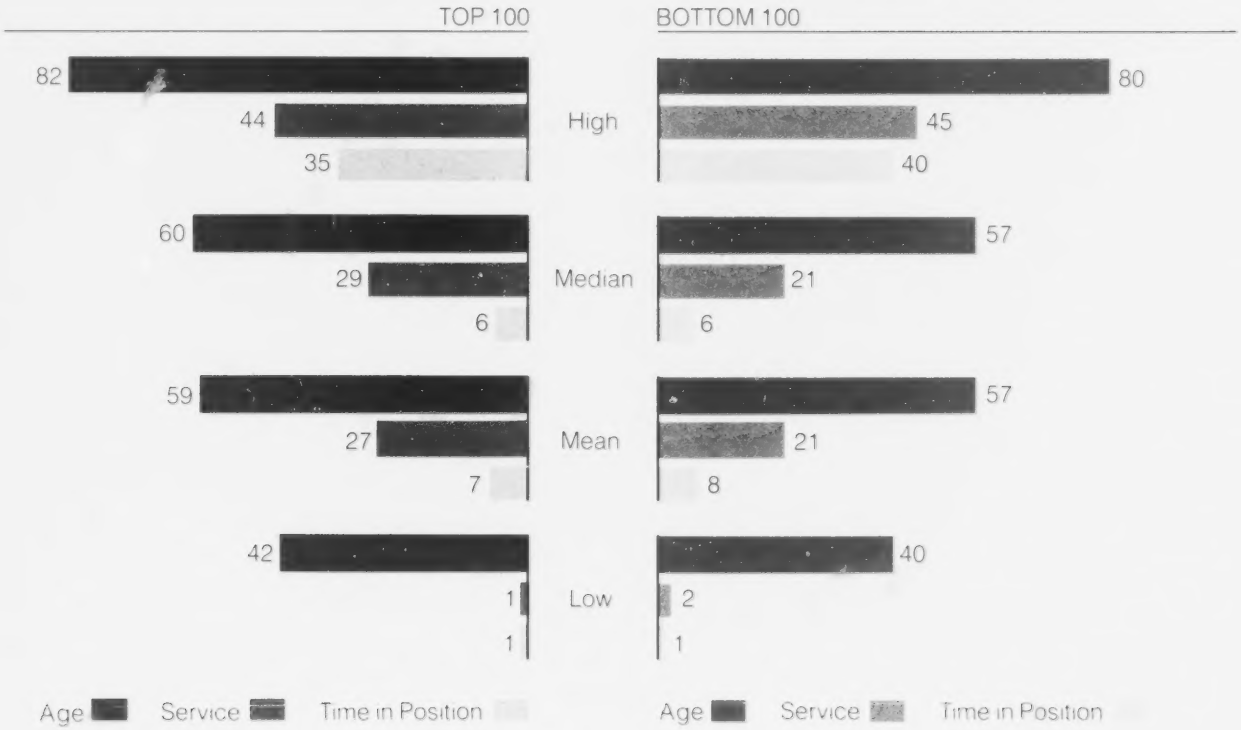


Exhibit 3

1979 Total Cash Compensation Statistics

Total Compensation

Exhibit 3 shows the range and the mean and median values of the total cash compensation (base salary plus annual bonus) reported for the five highest paid executives in both Top 100 and Bottom 100 groups. Although it is generally accepted that pay levels and company size are positively correlated, factors other than sales also account for variation in pay.

Increases in Compensation

Except for the CEO, median increases in total cash compensation for 1979 were identical for the five highest paid executives in both the Top and Bottom 100 companies, as seen in *Exhibit 4*. Given the considerable difference in profit performance, we expected executives in the Top 100 companies to be a few percentage points ahead. Excluding the petroleum companies has little effect on the median increases for executives. It's also worth noting that the median increases for all executives were below the 1979 increase of 13.3% in the Consumer Price Index.

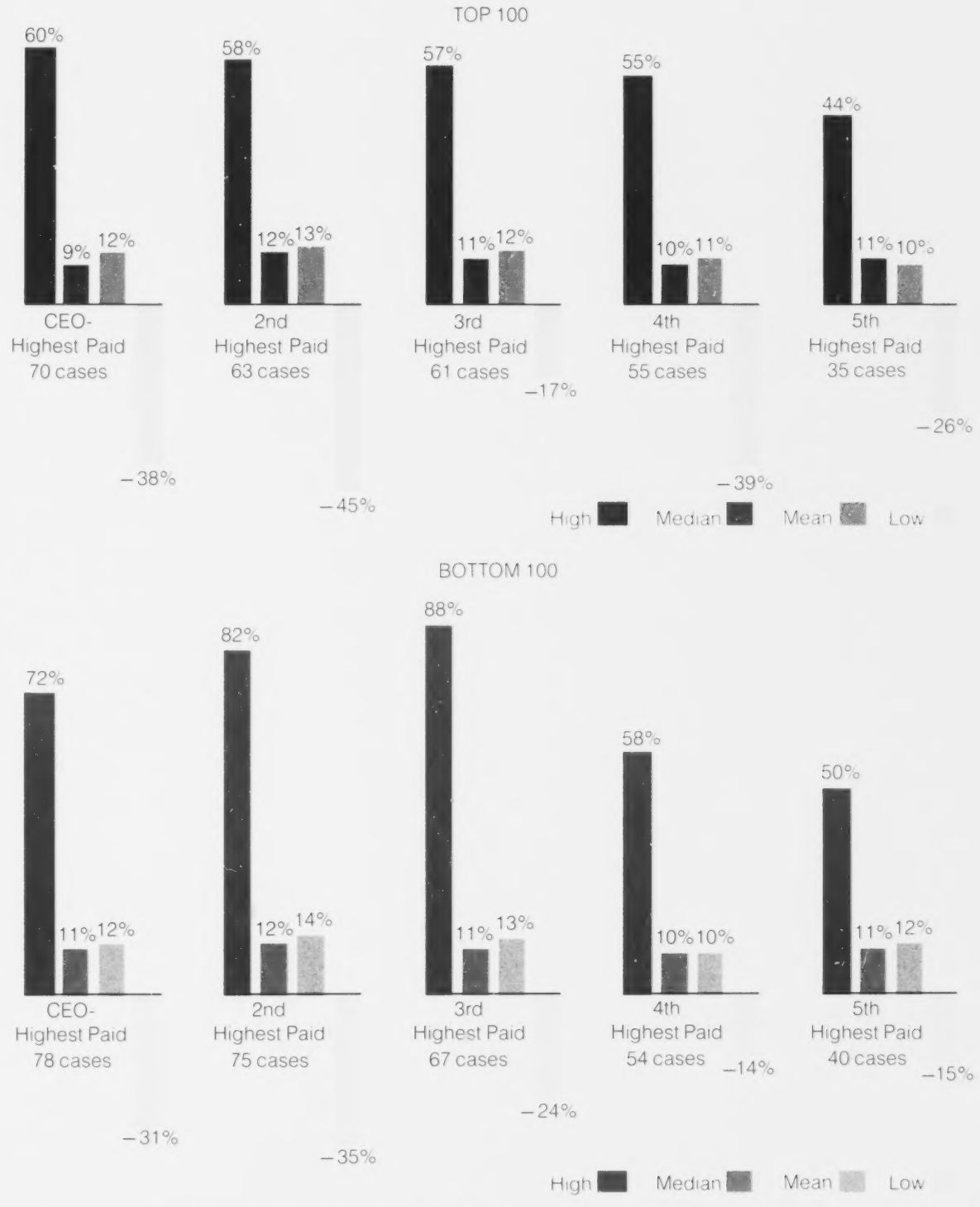
Salary/Bonus Mix

Only about 25% of the 200 companies in the study report salary and bonus levels separately. Therefore, the results shown in *Exhibit 5* may not be representative of the entire survey group.

In four of the five reported positions, bonus as a percent of base salary is higher among the Top 100 companies. Although one must be cautious in drawing conclusions from small samples, the pattern of higher bonus percentages for top executives in larger companies on a job-for-job basis has also been observed in our broader Compensation Data Bank survey.

Exhibit 4

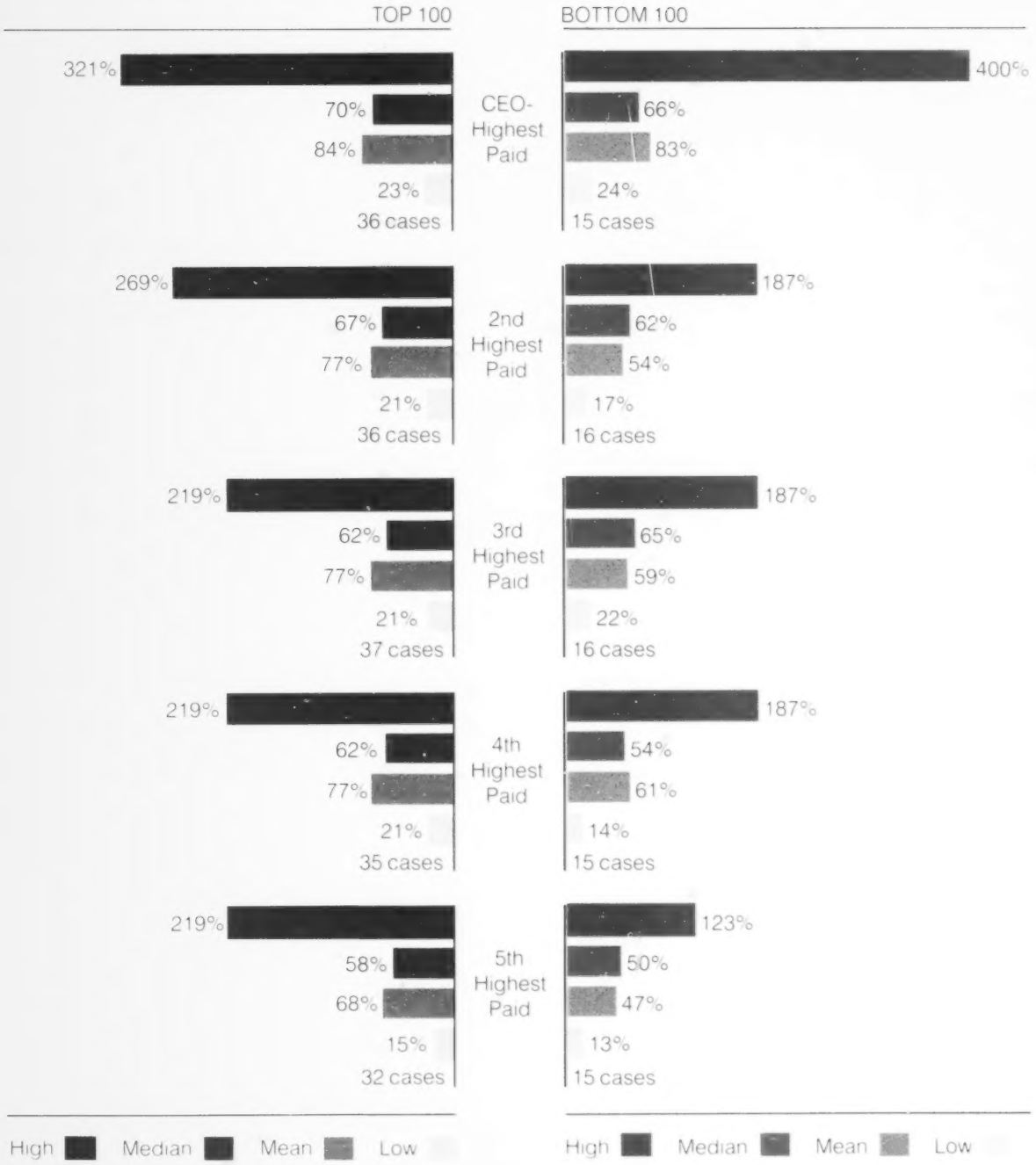
Percentage Increase in Total Cash Compensation—1978–1979*



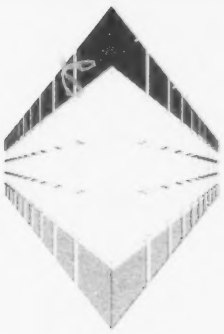
*these increases were determined for those executives who occupied the same position in both 1978 and 1979

Exhibit 5

Bonus as a Percent of Base Salary



Incentive Compensation Techniques



Either short-term or long-term incentive compensation plans are incorporated in the executive compensation programs of all but seven companies in the study. In fact, 92 of the Top 100 companies provide for both short- and long-term incentives for their executives. Among the Bottom 100 companies, 77 provide both forms of incentive compensation.

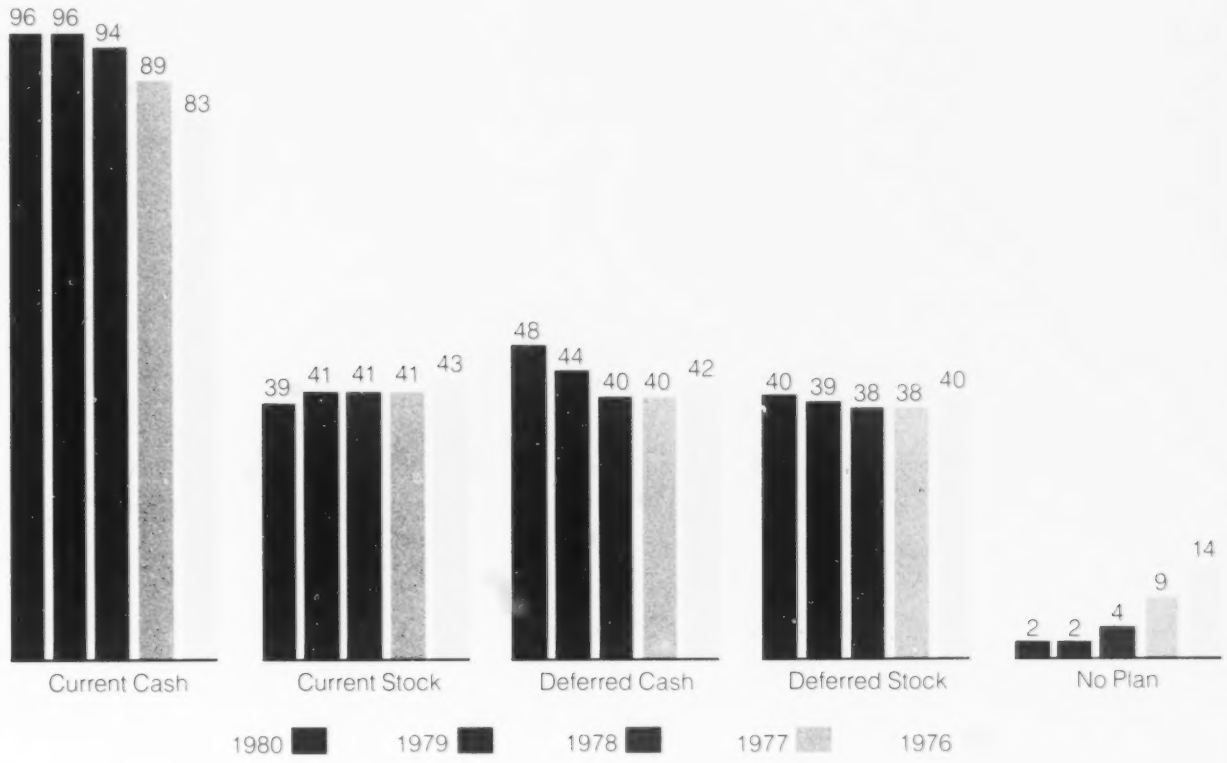
Exhibits 6 and *9* review the short- and long-term incentive pay practices of the Top 100 companies during the past five years. *Exhibits 7* and *10* contrast the current practices of the Top 100 and Bottom 100 companies. The company-by-company listings in *Exhibits 8* and *11* indicate the types of awards that each of the Top 100 companies may use under the terms of its plans as reported to shareholders.

Short-Term Incentives

There is little room for expansion of annual bonus plans among the Top 100 industrials as they are now reported by 98 companies. In contrast, 87 of the Bottom 100 companies report annual bonus plans.

Exhibit 6

Summary of Top 100 Short-Term Incentive Trends—1976–1980



Paying awards in cash as soon as practical after the close of the fiscal year continues to be the most popular form of payment. Absent a major change in tax law or a drastic reduction in the inflation rate, it will probably continue to be so. The forms of payment are defined below.

Exhibit 7 shows the extent to which the various forms of payment are provided for among those companies that sponsor annual bonus plans. The Bottom 100 companies show an even stronger tendency for current cash awards than do the Top 100, and they are considerably less interested in deferred awards or awards paid in stock.

Definitions

To assure consistent interpretation of study results, we define the various short-term awards as follows:

- *Current Cash*
  Any award paid in cash either immediately following the close of the year on which the award is based or in installments beginning in that year and continuing for a number of years during active employment.

- *Current Stock*
  Any award paid in stock either immediately following the close of the year on which the award is based or in installments beginning in that year and continuing for a number of years during active employment.

- *Deferred Cash*
  Any award paid in cash, but not until termination or retirement. The fact that the payment at termination or retirement might be in a lump sum or spread over several annual installments is not considered in this study and does not affect this classification. Similarly, there is no analysis of any increase (e.g., interest payments) in the award amount during the deferral period.

- *Deferred Stock*
  Any award made in stock under the short-term incentive plan, but not paid until termination or retirement. The fact that the payment at termination or retirement might be in a lump sum or spread over several annual installments is not considered in this study and does not affect this classification. Similarly, there is no analysis of any increase (e.g., market price gains and/or dividend equivalents) in the award amount during the deferral period.

Exhibit 7

Comparison of Short-Term Forms of Payment*

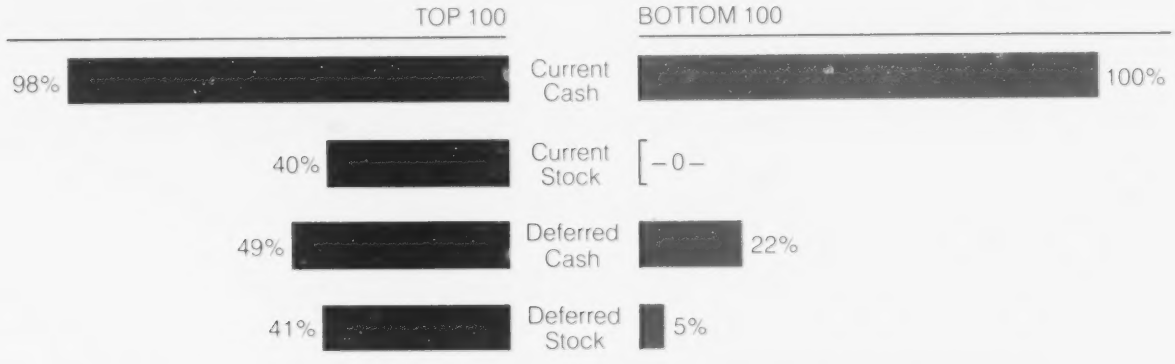
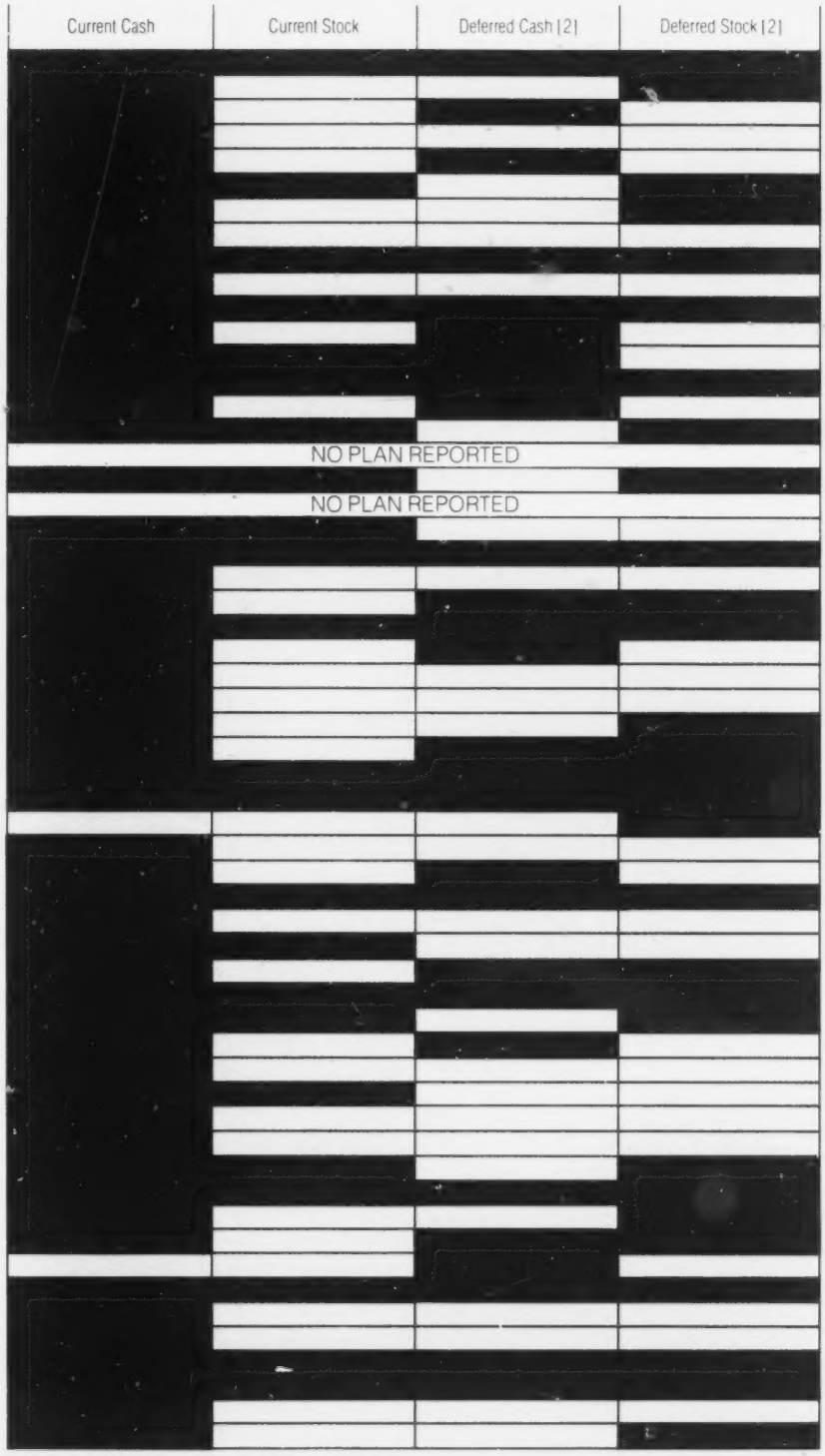


*figure indicates the extent to which the form of payment is provided for among those companies that offer short-term plans

Exhibit 8

Short-Term Incentive Plans in the Top 100 U.S. Industrial Companies [1]



Darker color indicates feature included in plan

Company Name	Current Cash	Current Stock	Deferred Cash [2]	Deferred Stock [2]
International Telephone and Telegraph Corporation	■			
Iowa Beef Processors, Inc.		■	■	■
Johnson & Johnson		■	■	■
Kraft, Inc.			■	■
The LTV Corporation		■	■	■
Litton Industries, Inc.		■	■	■
Lockheed Corporation		■		■
Marathon Oil Company			■	■
McDonnell Douglas Corporation			■	■
Minnesota Mining and Manufacturing Company		■	■	■
Mobil Corporation [3]	■			
Monsanto Company [3]	■			
National Steel Corporation			■	■
Occidental Petroleum Corporation		■	■	■
Owens-Illinois, Inc.		■		■
PepsiCo, Inc.		■	■	■
Philip Morris Incorporated		■	■	■
Phillips Petroleum Company [3]	■			
The Procter & Gamble Company [3]	■			
RCA Corporation			■	■
Ralston Purina Company			■	■
Raytheon Company			■	
Republic Steel Corporation		■	■	■
R.J. Reynolds Industries, Inc.		■	■	■
Rockwell International Corporation [3]	■			
Shell Oil Company	■			
The Signal Companies, Inc.		■	■	■
Sperry Corporation		■	■	■
The Standard Oil Company (an Ohio Corporation)		■	■	■
Standard Oil Company (Indiana)	■			
Standard Oil Company of California		■	■	■
Sun Company, Inc.		■	■	■
TRW Inc.		■	■	■
Tenneco Inc.		■	■	■
Texaco Inc.		■	■	■
Textron Inc.		■	■	■
Union Carbide Corporation		■		■
Union Oil Company of California		■		■
Union Pacific Corporation		■		■
United Brands Company		■		■
United States Steel Corporation		■		■
United Technologies Corporation		■	■	■
Westinghouse Electric Corporation			■	■
Weyerhaeuser Company			■	
Xerox Corporation		■	■	■

[1] Companies are those ranked by *Fortune* (May 1980). Eaton Corporation and FMC Corporation have been substituted for Farmland Industries, Inc. and Western Electric.

[2] "Deferred" awards indicate payout after termination or retirement and do not include individual contractual deferred compensation arrangements.

[3] These companies have made provision in their plans for the award of restricted stock.

[4] Company makes bonus awards in the form of dividend units.

Please note that this chart reports methods of payment for which the companies have made provisions in their plans, but does not necessarily indicate methods of payment actually used.

Long-Term Incentives

Stock options have been criticized in recent years for their failure to deliver meaningful long-term incentive rewards and, consequently, their use has declined (Exhibit 9).

Five years ago, 88 of the Top 100 companies reported stock option plans. Today, only 83 companies report them. However, stock appreciation rights (SARs) continue to grow in popularity and are now offered by 68 companies—82% of those that have option plans. Four years ago, that figure was 38%.

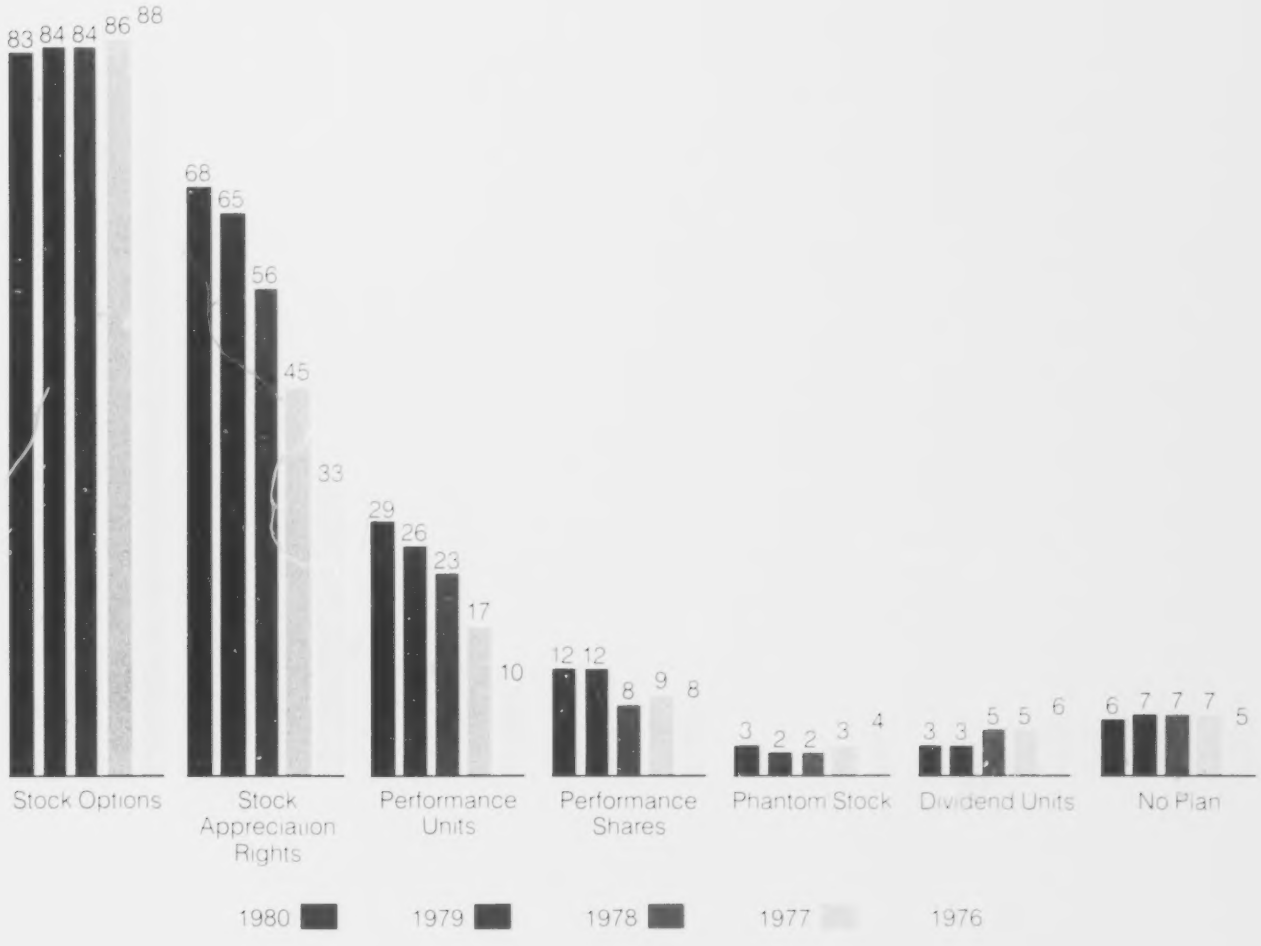
In short, fewer companies than before are relying upon changing market values as the basis for their long-term incentive awards. Among those that do, there is an increasing tendency to use SARs for at least some of their executives. Because SARs, unlike options, involve an accounting expense, many companies do not grant them to all option holders. Despite their drop in popularity, however, stock options remain the most frequently used form of long-term incentive, and a return of the bull market could easily reverse their slide.

Three companies added long-term performance plans to their executive compensation packages, bringing to 41 the number of companies that have either a performance unit or a performance share plan. Growth in the adoption of these plans has been steady but by no means sensational.

Although some might question the categorization of outright stock grants as long-term incentive devices, they are worth noting. In the last year, the number of companies making such grants rose from eight to 14, a 75% increase. More than half of these grants were in the form of restricted stock.

Exhibit 9

Summary of Top 100 Long-Term Incentive Trends—1976–1980



Eighty-three of the Bottom 100 companies use some form of long-term incentive plan in their executive compensation programs. Among the Top 100 companies, the comparable figure is 94. To gauge the relative popularity of each long-term incentive device, we've computed for those organizations that offer long-term incentive plans the extent to which they provide for the various devices. The results appear in Exhibit 10.

It's clear that options are equally popular among both groups of companies. But the Top 100 companies use most of the other devices more frequently. One apparent reason for the difference is the increasing tendency among Top 100 companies to include several devices in their long-term incentive inventories. For example, a program might consist of stock options, SARs and a long-term performance plan. The plans are defined below.

Definitions

We define the various long-term awards as follows:

- *Stock Options*
  An opportunity to purchase company stock in the future at a predetermined price.

- *Stock Appreciation Rights*
  A right granted in connection with an option where the executive, in lieu of exercising the option, can receive a payment equal to the amount by which the fair market value of the stock, on the date the option otherwise would have been exercised, exceeds the option price. These payments can be made in cash or free shares of stock having an equivalent value, or a combination of both.

- *Performance Unit Awards*
  Any grant of contingent units that are "earned out" by meeting pre-established performance goals over a predetermined span of time (usually three to six years). Such units, when earned, are assigned an arbitrary value that is not related to the *then* current market price of the company's stock. Payment is made in cash or equivalent shares of stock.

- *Performance Share Awards*
  Any grant of contingent units that are "earned out" by meeting pre-established performance goals over a predetermined span of time (usually three to six years). When earned, each of the units awarded to an employee is converted to a share of common stock. Alternatively, the employee may receive the cash equivalent of the common stock or a combination of cash and stock. Performance goals are most often stated in terms of earnings-per-share growth, but other measures may be used.

☐ *Stock Grant*

Any award of: a) actual shares of stock at no or nominal cost, with no conditions covering future performance requirements; or b) contingent shares or units of deferred stock, with the shares (or cash equivalent) delivered to the employee after a specified period of time with no future performance requirements imposed.

☐ *Phantom Stock*

Any award made in units analogous to an actual share of stock where the employee receives, after a period of time, the equivalent of the appreciation in the value of the underlying stock. This sum may be paid out either in cash or in stock.

☐ *Dividend Units*

Any award made in units analogous to an actual share of stock where the employee receives only the equivalent of dividends paid on shares of the company's stock. This sum may be paid out either in cash or in stock over a stated number of years.

Exhibit 10

Comparison of Long-Term Incentive Techniques*

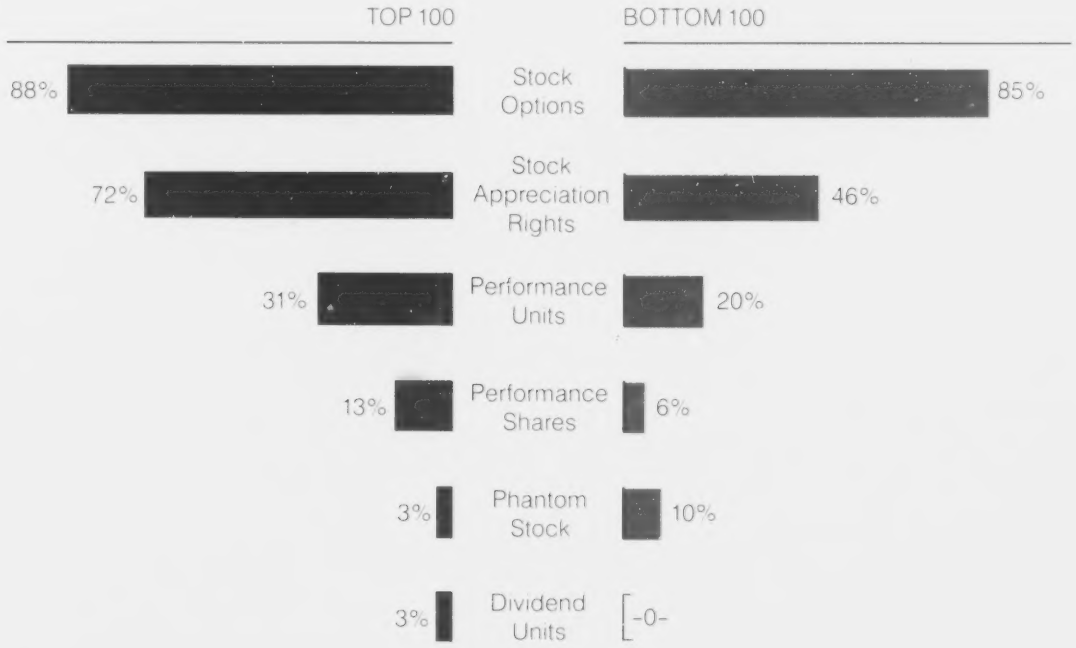
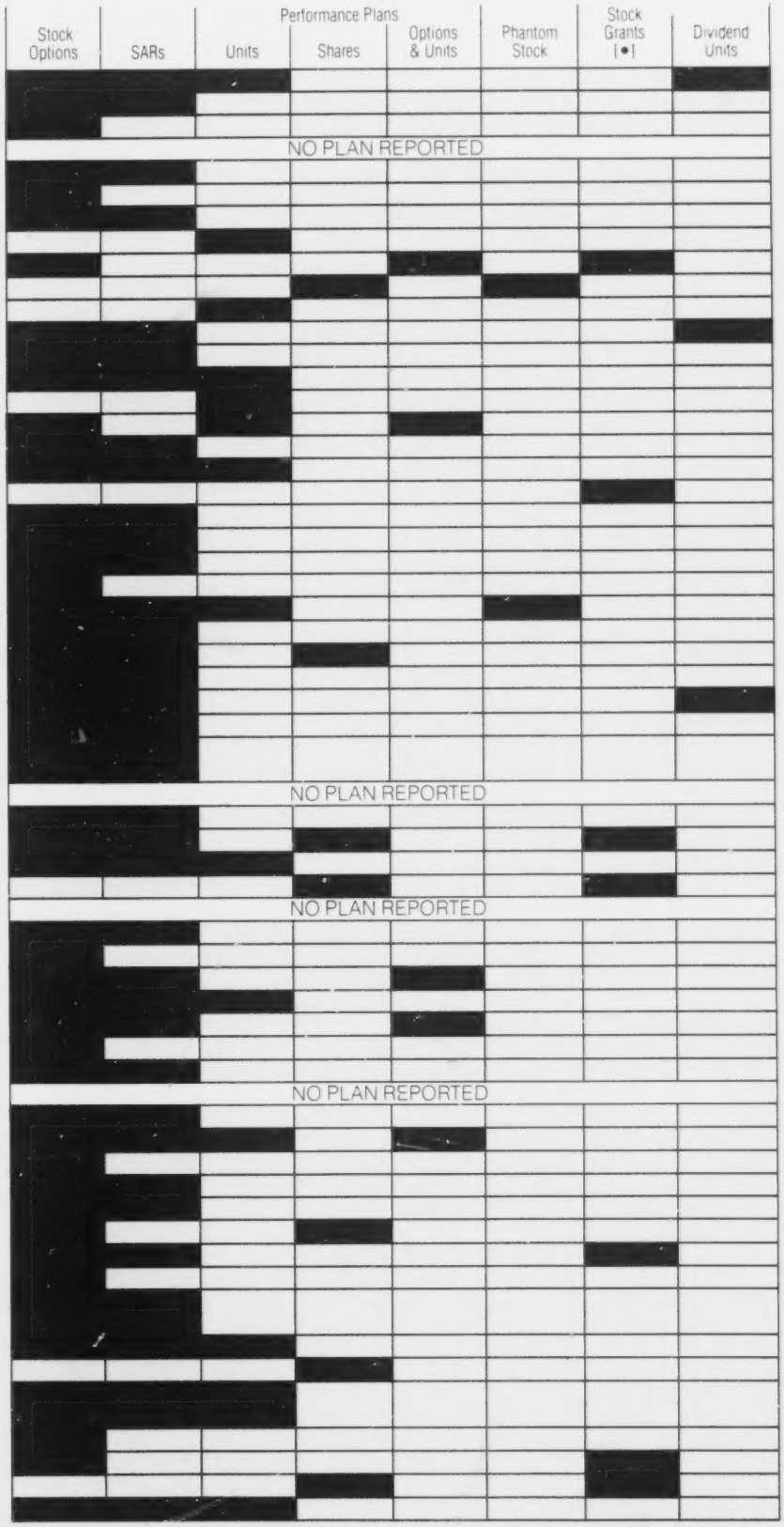


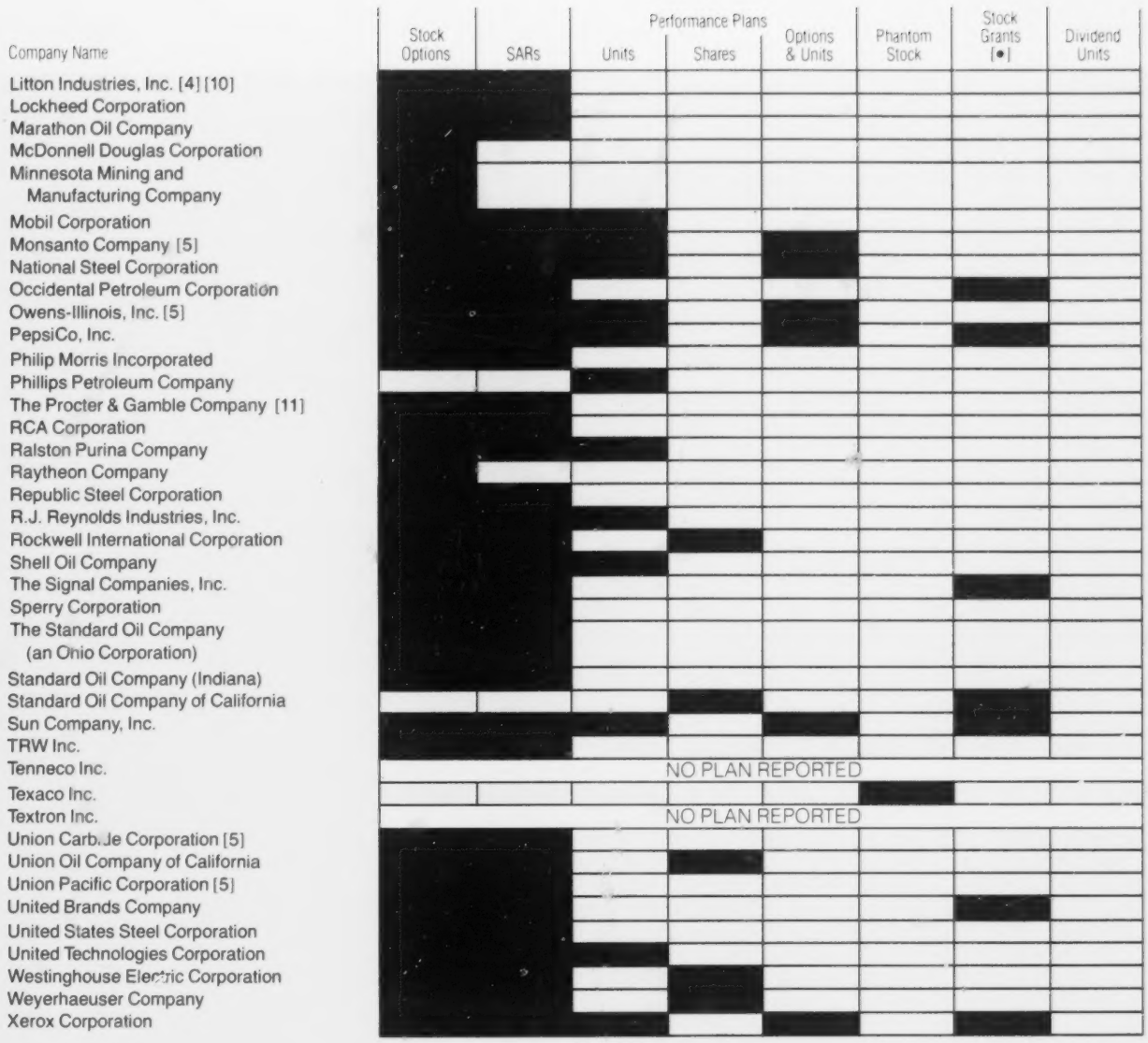
*figure indicates the extent to which the technique is provided for among those companies that offer long-term plans

Exhibit 11

Long-Term Incentive Plans in the Top 100 U.S. Industrial Companies [1]



Darker color indicates feature included in plan



[1] Companies are those ranked by *Fortune* (May 1980). Eaton Corporation and FMC Corporation have been substituted for Farmland Industries, Inc. and Western Electric.

[2] Company has a long-term performance incentive plan providing for awards of restricted stock; company also has a phantom stock plan providing for phantom stock and/or phantom book value units.

[3] Awards based on book value of stock.

[4] Non-qualified options may be granted below fair market value.

[5] Options may be granted to purchase restricted shares.

[6] Plan permits payment of cash bonus on exercise of option.

[7] Variable-priced options may be granted.

[8] Company has a stock purchase plan for restricted securities.

[9] Company grants stock unit awards valued by a formula that reflects book value and earnings per share; company also has a plan that awards shares of stock.

[10] Plan permits grant of stock appreciation rights independent of options.

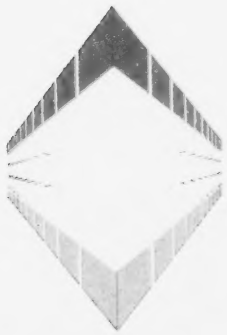
[11] Stock appreciation rights can be awarded only under certain circumstances.

[•] Restricted stock.

* Performance units effective for fiscal year 1981.

Please note that this chart reports methods of payment for which the companies have made provisions in their plans, but does not necessarily indicate methods of payment actually used.

Summary and Conclusions



Apart from the obvious differences in size, how then do the two survey groups compare? The Bottom 100 organizations are run by CEOs who are a shade younger and have somewhat shorter service than their counterparts in the Top 100 industrials. In general, executive pay in the Bottom 100 is lower, although, during this past year, the rate of increase matched that of the Top 100 despite lower growth in profits.

The prevalence of incentive pay is slightly greater among Top 100 companies, with the most noticeable difference occurring in the area of long-term incentives. Stock appreciation rights and performance share and unit plans are used much more frequently among Top 100 organizations. Fewer Bottom 100 companies have adopted short-term plans, but those that have show a proclivity for current cash as the form of payment. Current rather than deferred awards are also favored by Top 100 executives.

If U.S. industry retools to increase its productivity, the role of incentives will need to be reviewed. Currently, the emphasis is on short-term plans, which means pressure to increase short-term profitability. If the focus becomes longer term, the incentive plans used to reinforce the business plans will have to be altered. Short-term profitability can't be ignored, but the importance of improved productivity might share the spotlight. Thus, the future may very well see an increase in the use of long-term performance plans.

In any event, the design of both short- and long-term incentive plans, as well as base salary structures, will need to be tempered with prudence and plausibility to defuse criticism of executive pay levels by stockholders and the general public. Compensation planners—and board compensation committees—will need accurate, comparable data to aid them in this task. Objective measures—job responsibilities, organizational size, business results, executive experience, etc.—will have to be taken into account. Given the current regulatory and social environments, and the equally demanding need to retain and motivate top executives, management must take the initiative in establishing and maintaining executive compensation packages.

Exhibit 12

Alphabetical Listing of Bottom 100* Companies

American Bakeries Company
American Hoist & Derrick Company
Arcata Corporation
Arvin Industries, Inc.
Avery International Corporation
Ball Corporation
Barnes Group Inc.
Bausch & Lomb Incorporated
Beckman Instruments, Inc.
Bell & Howell Company
Big Three Industries, Inc.
Briggs & Stratton Corporation
Brockway Glass Company, Inc.
Bucyrus-Erie Company
Bunker Ramo Corporation
Butler Manufacturing Company
Cameron Iron Works, Inc.
Cannon Mills Company
Capital Cities Communications, Inc.
Carpenter Technology Corporation
The Ceco Corporation
Chicago Pneumatic Tool Company
The Coca-Cola Bottling Company of New York, Inc.
Collins & Aikman Corporation
Columbia Pictures Industries, Inc.
Consolidated Papers, Inc.
Copperweld Corporation
DPF Incorporated
Dan River Inc.
Data General Corporation
Dean Foods Company
Dennison Manufacturing Company
The Dexter Corporation
The Dorsey Corporation
Dow Jones & Company, Inc.
EG&G, Inc.
Eagle-Picher Industries, Inc.
Economics Laboratory, Inc.
Envirotech Corporation
Federal Paper Board Company, Inc.
Ferro Corporation
Fieldcrest Mills, Inc.
The Foxboro Company
Frederick & Herrud, Inc.
Freeport Minerals Company
General Instrument Corporation
General Refractories Company
Gerber Products Company
Gulf Resources & Chemical Corporation
Harcourt Brace Jovanovich, Inc.
Harnischfeger Corporation
G. Heileman Brewing Company, Inc.
Hoover Universal, Inc.
Hyster Company
Ideal Basic Industries, Inc.
Idle Wild Foods, Inc.
Insilco Corporation
Jonathan Logan, Inc.
Kellwood Company
Keystone Consolidated Industries, Inc.
Koehring Company

* Companies are those ranked 401-500 by *Fortune* (May 1980). Some of these companies are not required to file proxy statements with the SEC. Consequently, Cannon Mills Company, Columbia Pictures Industries, Inc., Hoover Universal, Inc., Macmillan, Inc., Nashua Corporation, Peavey Company, United States Filter Corporation and Wallace-Murray Corporation have been substituted for Acco Industries Inc., Bluebird Incorporated, Fairmont Foods Company, Fiat-Allis Construction Machinery, Inc., H.P. Hood Inc., Kohler Co., Midland Cooperatives, Inc., and National Starch and Chemical Corporation.

Exhibit 12 (cont'd)

Macmillan, Inc.
Magic Chef, Inc.
Maryland Cup Corporation
Masonite Corporation
Mattel, Inc.
McCormick & Company, Incorporated
McDonough Co.
Metromedia, Inc.
Moore McCormack Resources, Inc.
Nalco Chemical Company
Nashua Corporation
Northwestern Steel and Wire Company
Nucor Corporation
Pacific Resources, Inc.
Peabody International Corporation
Peavey Company
Questor Corporation
H.H. Robertson Company
Roper Corporation
Royal Crown Companies, Inc.
Skyline Corporation
Smith International, Inc.
Sonoco Products Company
Stanadyne, Inc.
Stokely-Van Camp, Inc.
Storage Technology Corporation
Sun Chemical Corporation
Talley Industries, Inc.
Tyler Corporation
United Refining Company
United States Filter Corporation
VF Corporation
Varian Associates, Inc.
Wallace-Murray Corporation
Warnaco Inc.
The Washington Post Company
Westmoreland Coal Company
Wm. Wrigley Jr. Company
Wyman-Gordon Company

About TPF&C

We have been consultants to management since 1917. TPF&C currently employs more than 1300 persons and has a consulting and specialized support staff of over 950.

We serve more than 3000 clients in the private and public sectors, about 500 of whom are multinational organizations. Our clients have operations in over 90 countries.

As consultants to management, we relate our services to a number of important business problems. Our clients typically recognize the value of outside counsel in light of today's demands on management for ready access to the diversity of skills and knowledge required to keep pace with rapidly changing technologies, markets and cultures.

We have 26 consulting offices worldwide—15 in the U.S., four in Canada, four in Europe, two in Latin America and one in the Far East—to better serve our growing list of clients.

Our consulting skills are in these fields:

- executive compensation
- salary administration
- marketing and sales compensation
- actuarial and employee benefits
- communications
- human resource management
- management, organization and planning
- health care management/HMOs
- risk management
- insurance company actuarial and management services.

TPF&C Compensation Data Bank and Compensation Determination Service

TPF&C's Compensation Data Bank provides annual surveys for participating companies, evaluating base salary, total cash compensation, option practices and perquisites.

The Compensation Determination Service provides analysis of pay policies and practices, and uses composite mathematical models to identify factors in pay differentials that cannot be attributed to variances in job content.